

Group General Manager
Network Access

26 OCT 2007

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Mr John Hall
Chief Executive Officer
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Dear John

**DRAFT DECISION ON QR'S VOLUNTARY DRAFT AMENDING UNDERTAKING –
COAL SYSTEM MAINTENANCE COSTS**

Thank you for the opportunity to respond to the Queensland Competition Authority's (QCA's) Draft Decision dated 28 September 2007 on its assessment of QR's revised maintenance cost forecasts and Reference Tariffs for coal carrying Train Services in the Central Queensland Coal Region (CQCR).

QR is pleased that in the Draft Decision the QCA accepted most of QR's claim for an increase to its 2007-08 and 2008-09 regulatory maintenance allowance for the CQCR. QR notes that the QCA has been largely supportive of its claim on the basis that:

- The efficient cost of maintenance has increased since QR first developed its maintenance forecasts;
- QR's revised allowance for maintenance tasks (excluding ballast undercutting) is broadly consistent with relevant industry benchmarks; and
- A detailed, full-scale review of QR's maintenance program will be undertaken as part of the development of QR's 2009 Access Undertaking (the 2009 Undertaking).

In the Draft Decision, the QCA raised an issue with QR's proposed ballast undercutting allowance. In particular, the QCA questioned whether QR has acted prudently in dealing with the coal fouling issue. QR does not agree with the position put forward by the QCA.

Over recent years, QR has spent considerable resources researching this issue. This research has led to a number of changes to coal handling arrangements such as:

- The redesign of new port unloaders to minimise coal ploughing.
- The introduction of a "Transfer Facilities Requirements Document" for new mines, which requires installation of a profiler with sill brushes and an overload removal device (either a backhoe attachment fixed to the unloader, or incorporated in a profiling type device).

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- Working with operators (currently QRNational Coal) to change unloading speeds at the port to reduce the amount of coal ploughing.
- The hiring of vacuum-based machines to clear up coal spills and coal fouling in the immediate environs of the load-out facilities.

However, despite these changes the rate of coal fouling has actually increased over this period due to increased system throughput and the shift to 104 and 106 tonne wagons. In addition, a number of solutions were researched which were intended to go directly to the cause of the problem (being coal spillage and coal ploughing). These solutions, including the prototyping of wagon lids and trial application of three types of surfactants, were proven at the time to be impractical and/or uneconomic for a number of reasons, principally being the impact of each solution's implementation on supply chain throughput.

The customer benefits associated with higher throughput resulting from the key factors that contribute to coal contamination (specifically, heavier wagon loads and faster loading and unloading times) have significantly outweighed the additional below rail cost burden associated with the increase in ballast undercutting. QR is satisfied that its decision to allow the higher throughput was based on a prudent assessment of customer benefits, the cost of ballast undercutting and the cost and effectiveness of alternative strategies.

This assessment is continually being reviewed. In this regard, QR has recently commenced a study on the environmental impact of coal dust in response to issues raised by the Environmental Protection Authority (EPA). QR has extended the scope of work beyond that required by the EPA to review the full impact of coal dust and coal contamination on both the supply chain and adjacent communities. This review may result in significant changes to the management of coal dust and fouling and almost certainly increased expenditure on solutions for mitigation.

There clearly needs to be some form of joint QCA and industry engagement around the issue of coal fouling and ballast undercutting. It is critical that QR is able to demonstrate to the satisfaction of the QCA and industry that:

- QR has acted reasonably in handling the issue of coal fouling; and
- QR has appropriate measures in place to mitigate the impact of coal fouling on its rail operations.

Notwithstanding these comments, QR accepts the Draft Decision. QR will, subject to the QCA's Final Decision, prepare a new submission to revise the reference tariffs and the system allowable revenues in Schedule F of QR's 2005 Access Undertaking to reflect QR's maintenance claim, adjusted for the QCA revised ballast undercutting allowance and backdated to 1 July 2007.

QR is giving the development of a detailed, full-scale review of its Below Rail coal maintenance program for the 2009 Undertaking the highest priority. QR will consult closely with the QCA and industry on the material assumptions underpinning QR's future maintenance plan and the consideration of different maintenance/expenditure profiles in maintaining the existing overall capability of the CQCR.

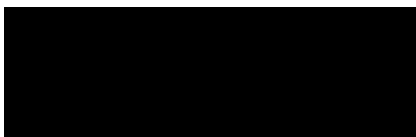
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The aim of this consultation process is to foster greater industry awareness of the issues and the decision making matrix underpinning QR's maintenance activities. Industry will be given an opportunity to provide input into QR's maintenance plan, prior to the plan being submitted to the QCA as part of QR's submission for the 2009 Undertaking.

Please contact Gayle Andrews on 3235 5476 should you have any queries regarding this response.

Yours faithfully



Michael Carter
Group General Manager
QR Network Access

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